

WEEKLY ECONOMIC UPDATE

3 – 9 September 2018

Recent domestic publications (lower business sentiment, weak 2Q investments) confirm in our view, that the economy has passed the peak of the business cycle and may start to lose the momentum in the quarters to come.

This week we expect the EURPLN to stabilize below 4.30 with the risk of exceeding this level in the event of increased tensions between the US and the rest of the world and/or further deterioration of mood on emerging markets. Polish PMI reading and MPC meeting should be neutral market-wise. On the debt market, we expect insignificant rise of yields in the belly and long-end of the curve (around 2-4bp) because of announced bonds auction. The Ministry of Finance is going to sell PLN3-6bn of bonds. Short-end should stay low (1.55-1.57%) amid continued high banks' demand for liquid assets and smaller interest in NBP bills.

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST
					MARKET	BZWBK	VALUE
MONDAY (3 September)							
09:00	PL	Poland Manufacturing PMI	Aug	pts	53.1	53.1	52.9
09:55	DE	Germany Manufacturing PMI	Aug	pts	56.1		56.1
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	54.6		54.6
TUESDAY (4 September)							
16:00	US	ISM manufacturing	Aug	pts	57.4		58.1
WEDNESDAY (5 September)							
	PL	MPC decision		%	1.5	1.5	1.5
03:45	CH	Caixin China PMI Services	Aug	pts	52.5		52.8
09:00	HU	GDP	2Q	% y/y	4.6		4.6
09:55	DE	Markit Germany Services PMI	Aug	pts	55.2		55.2
10:00	EZ	Eurozone Services PMI	Aug	pts	54.4		54.4
11:00	EZ	Retail Sales	Jul	% m/m	-0.1		0.3
THURSDAY (6 September)							
08:00	DE	Factory Orders	Jul	% m/m	1.8		-4.0
09:00	CZ	Industrial Production	Jul	% y/y	7.8		3.4
09:00	HU	Industrial Production SA	Jul	% y/y	8.0		3.1
14:15	US	ADP report	Aug	k	190.5		219.0
14:30	US	Initial Jobless Claims		k	212.0		210.0
16:00	US	Durable Goods Orders	Jul	% m/m	-		-1.7
16:00	US	ISM services	Aug	pts	56.8		55.7
16:00	US	Factory Orders	Jul	% m/m	-0.5		0.7
FRIDAY (7 September)							
08:00	DE	Exports SA	Jul	% m/m	0.2		0.1
08:00	DE	Industrial Production SA	Jul	% m/m	0.2		-0.9
11:00	EZ	GDP SA	2Q	% y/y	2.2		2.2
14:30	US	Change in Nonfarm Payrolls	Aug	k	192.0		157.0
14:30	US	Unemployment Rate	Aug	%	3.8		3.9

Source: BZ WBK, Reuters, Bloomberg

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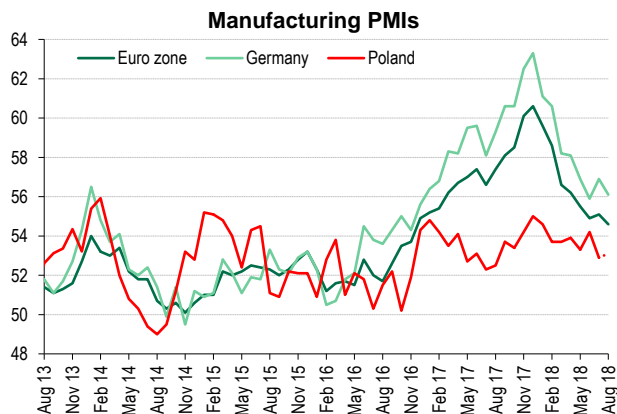
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What's hot next week – Back to school

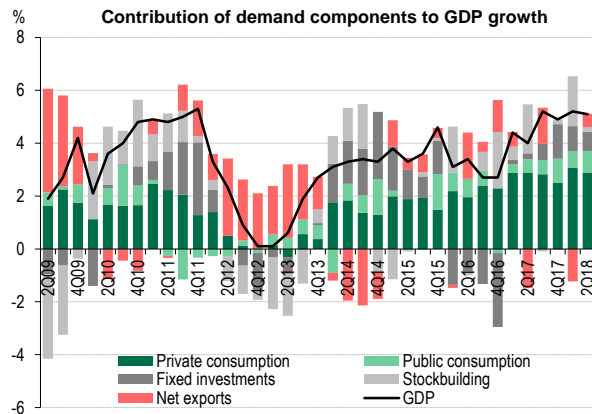


▪ We expect the Polish PMI index to inch up in August, despite slight declines recorded by sentiment indicators for the euro zone and Germany, trimming part of the significant decline recorded last month.

▪ The first MPC meeting after the summer holidays is unlikely to show any change in the central bank's policy bias, as the data released recently have probably reassured the MPC members that their patient approach is appropriate - inflation remains low, despite decent economic activity. Given the surprisingly poor investment growth in 2Q, dovish members might reiterate that the Council should run its policy in such a way to support this component of GDP, with rate hikes out of scope in 2018 and 2019.

▪ The ruling party's (PiS) convention over the weekend may highlight the political agenda ahead of autumn local government elections and next year's general elections.

Last week in economy – Strong growth, weak investment, inflation clinging to 2%

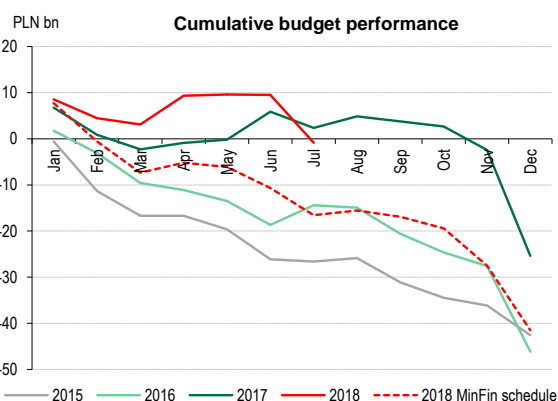
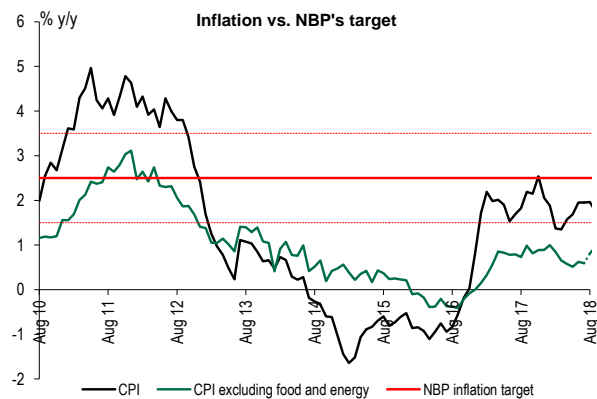


▪ GDP growth in 2Q18 reached 5.1% y/y, confirming the flash estimate. The breakdown of growth surprisingly showed a significant slowdown in investments - to 4.5% y/y, from 8.1% in 1Q, despite earlier signals from big companies and local governments about a significant acceleration of investment spending. Stats office explained that the weakness came from changes in accounting of military spending and that other sectors saw improvement. We, nonetheless, worry SMEs refrained from rising investments. Private consumption remained the main engine of growth rising almost 5% y/y. Net exports added 0.5pp to GDP growth.

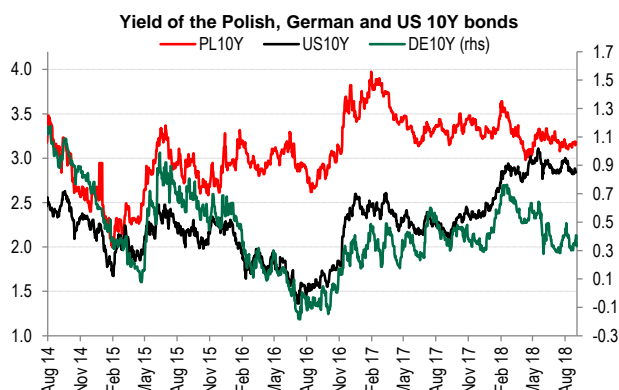
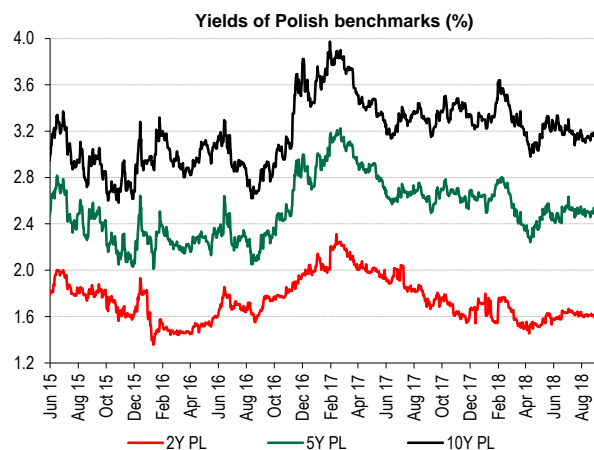
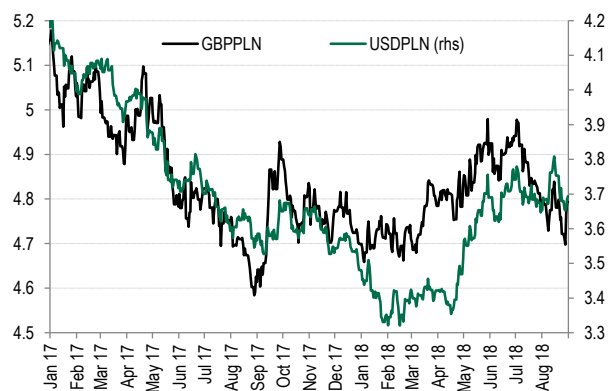
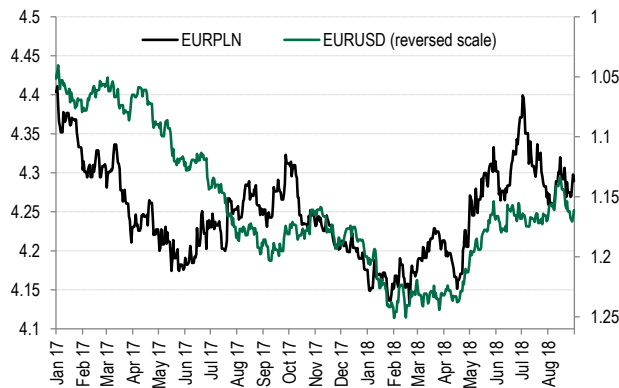
▪ Inflation in August remained at 2.0% y/y, in line with market expectations, and above our 1.8% forecast. This was caused by a significant rebound of core CPI from 0.6% y/y to 0.8-0.9%, the first one so far this year. In the coming months, CPI growth should gradually subside due to high base effects, towards 1.6% y/y in December. At the same time, core inflation should be going up to 1.2-1.3% y/y by year-end.

▪ After July, the central budget recorded a deficit for the first time this year in year-to-date terms: PLN0.9bn vs PLN 9.5bn surplus after June. The growth of tax income fell from 13.3% y/y in June to 0.8% in July mainly due to lower inflows from indirect taxes (-1.7% y/y while in June it was +11.7% y/y). Only in July the budget expenses amounted to PLN40.5bn, i.e. PLN12.5bn more than in June. Higher expenses resulted from debt servicing costs, which grew by PLN11.7bn in a month (mainly due to maturing bonds, although the large amount suggests that swap operations may have also been made to shift the costs in time; this was a one-off jump of these costs). It is likely that full-year budget deficit could settle at PLN23.8bn mentioned in the 2019 budget draft. However, we have to closely follow the indirect taxes growth in the months to come.

▪ In August, the European Commission's economic sentiment index (ESI) for Poland hit the new low for this year. Declines were seen in all sectors, especially in consumer sentiment, retail trade and industry. The indicator of expected industrial production dropped the lowest since mid-2017, current production index also declined. New orders decreased although they still remain at historically high levels. Inflation expectations did not increase among the entrepreneurs or consumers. Poorer consumer sentiment was accompanied by only slight decline of the index of major purchases and propensity to save, suggesting further strong demand on their part. The ESI behaviour suggests that the economy has passed the peak of the business cycle and may start to lose the momentum.



FX and FI market – US data in the spotlight



Last week on the market

▪ **FX** Last week on the debt market the volatility was relatively low. Yields in 5-10Y segment oscillated ± 4 bp without a clear trend, without success trying to follow core markets. Only in the 2Y segment, we saw a clear downward trend, which led the 2Y yields down by 2 bp. In our opinion, this was the result of increasing interest in T-bonds by banks in the last months, which may be a consequence of the flow of funds from investment funds (affected by lower funds asset pricing).

▪ **FI** EURPLN started last week on a low level (4.2710), pushed down by positive market mood after the signing the initial trade agreement between the US and Mexico. In the following days, profit taking, emerging Argentina crisis and strengthening of USD (as a reaction to these events) pushed the EURPLN close to 4.30.

What to watch for next week

▪ The crucial events this week will be the US labour market data (ADP, change in non-farm payrolls). They will likely positively shape USD and negatively affect US Treasuries. The European data (manufacturing and services PMIs and euro zone inflation), are unlikely to be a big story for investors as flash readings are already known. However, if the data surprise on the negative side they can support the German Bunds and the dollar.

▪ The market players will likely still look carefully at communications between US administration, China government and European Commission about new global trade regime. In our opinion, the domestic data (August manufacturing PMI on Monday morning, which we see slightly above the July reading) as well as the MPC meeting will be ignored by the market participants.

Market implications

▪ **FX** This week we expect the EURPLN to stabilize below 4.30 with the risk of exceeding this level in the event of increased tensions between the US and the rest of the world. The domestic PMI reading, as well as European data, should be neutral for EURPLN, in our view. US data which are scheduled for this week may be more important, and should potentially have a positive impact on the dollar and, consequently, negatively affect the zloty. In the 2-3 week horizon, EURPLN may temporarily be above 4.30 amid uncertainty related to the global economic situation, weaker Eurozone data releases and expected weaker Polish data.

▪ **FI** On the debt market, we expect insignificant growth of yields in the belly and long-end of the curve (around 2-4bp) because of announced bonds auction. On the auction, the Ministry of Finance is going to sell PLN3-6bn of bonds. Short-end should stay on the low level (1.55-1.57%) amid maintained high banks' demand for liquid assets and smaller interest in NBP bills.

▪ The Ministry of Finance announced a plan of September bond supply. On September 6, the ministry is going to offer PLN3-6bn of bonds OK0720, PS0123, WS0428 and WZ0528. Moreover, it announced that on September 20, on the switch auction it will buy bonds OK1018 (PLN11.9bn outstanding amount), WZ0119 (PLN13.7bn) and OK0419 (PLN19.8bn) and offer OK0720, PS0123, WZ0524, WS0428 and WZ0528.

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